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FISCAL IMPACT STATEMENT

LS 7033
BILL NUMBER: HB 1396

NOTE PREPARED: Jan 20, 2014
BILL AMENDED:

SUBJECT: Local taxes.

FIRST AUTHOR: Rep. Morris
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Exemption for $50,000 Book Value*: This bill provides that if the book value of a taxpayer's business personal property that would otherwise be subject to assessment and taxation is less than $50,000 for a particular assessment date: (1) the taxpayer is not required to file a personal property return for that assessment date; and (2) the taxpayer's business personal property is exempt from taxation and is not subject to assessment.

New Business Exemption: The bill provides that the business personal property of a new business is exempt from property taxation for the first three assessment dates that occur after the date on which the new business begins doing business in Indiana.

Existing Business Exemption: This bill provides a property tax exemption for the business personal property of a taxpayer that as of a particular assessment date has been doing business in Indiana for more than three years. It specifies that the amount of this exemption is equal to the difference between: (1) the assessed value of the taxpayer's business personal property located in a county on the assessment date; and (2) the average assessed value of the taxpayer's business personal property in the county for the three preceding assessment dates.

CEDIT-Funded Mitigation Credits: The bill authorizes the imposition of an additional County Economic Development Income Tax (CEDIT) rate, not to exceed the lesser of: (1) 0.25%; or (2) the rate necessary to provide the decrease in property taxes on homesteads or residential property, as appropriate, that would otherwise occur if the business personal property tax exemptions were not granted for new businesses and were not granted for the growth in business personal property above the average amount for the three preceding assessment dates.

Tax Return Information: This bill provides that for assessment dates after December 31, 2014, the Department of Local Government Finance (DLGF) shall require each taxpayer filing a personal property return to include on the return, for informational purposes, an estimate of the amount of the taxpayer's personal property that the taxpayer directly uses in manufacturing.

Permanent Abatement: The bill authorizes a county or municipality to establish a property tax abatement schedule under which 100% of the assessed value of new equipment is permanently deducted for each assessment date that the equipment is located in a revitalization area. It requires a review of the deduction every 10 years, and authorizes the designating body to terminate the deduction after the review.

Effective Date: July 1, 2014.

Explanation of State Expenditures: *CEDIT-Funded Mitigation Credits*: The bill's requirements are within the Department of State Revenue and State Budget Agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Tax Return Information: Beginning with assessments for March 1, 2015, the DLGF would have to include an additional question on the personal property tax return. The DLGF updates personal property tax returns each year. This change could be incorporated into the annual update.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Exemptions - Generally*: The additional amount of exemptions for personal property under this bill is indeterminable. The exemptions may have different effects, depending on the exemption type. The bill contains three types of new exemptions as follows.

<u>Exemption for small taxpayers</u>. These exemptions would reduce the current tax base and would eliminate AV growth as more new small businesses open. The tax base reduction would result in higher tax rates for all property types.

<u>Temporary exemptions for new property</u>. These exemptions do not reduce the current tax base. However, if the investment would have been made without the exemption, then the exemption will cause a delay in the tax rate reduction that would result from the new investment until the exemption expires.

<u>Exemption for AV growth</u>. This exemption also doesn't reduce the current tax base. However, if the investment that caused the AV growth would have been made without the exemption, then the exemption will eliminate the tax rate reduction that would result from the new investment.

All together, these exemptions would have varying effects on the tax liabilities of other properties depending on location.

Exemption for $50,000 Book Value: This provision would exempt an indeterminable amount of personal property assessed valuation.

Assessed value as reported on the personal property tax return form does not track with book value. This is especially true when the total assessed value of a taxpayer is subject to the 30% assessment floor. At this point, there is probably little book value left on such assets. The book value cannot be ascertained from the available property tax data. In addition, the $50,000 book value threshold would apply to the total book value of a taxpayer's assets, statewide. Multiple property tax returns filed by the same taxpayer within a county or within the state are difficult to link.

New Business Exemption: This provision would not exempt any existing value. Instead, it would exempt new value for three years. This exemption would be much like a 100% abatement for three years, but on the depreciable assets owned by all new businesses. Absent another abatement, the new valuation would be added to the tax base in the fourth year.

Existing Business Exemption: This exemption would reduce the growth in AV from some personal property taxpayers by an indeterminable amount. The exemption would equal the difference between the current year's assessed value and the average AV of the last three years. The amount of the exemption would depend on taxpayer behavior.

CEDIT-Funded Mitigation Credits: This provision would reduce net property taxes for homesteads or all residential property in an adopting county.

The bill would permit a county to adopt a CEDIT tax rate of up to 0.25% in order to mitigate the effects of the exemption for new businesses and the exemption for existing business AV growth. The credits could be granted to homesteads only or to all residential property. They could be applied uniformly throughout the county or they could be allocated to the taxing districts pro rata, based on the exemptions in the district. The credits would be equal to the property tax reduction that would have occurred if the personal property valuation had not been exempted.

The revenue collected from this tax must be used to pay for the credits. The rate imposed for this purpose is not included when computing the maximum allowable CEDIT rate or any other combination of local option income tax rates. Currently, 77 counties impose a CEDIT, and 65 of those counties have reached the maximum combined rate for the base local option income taxes.

Permanent Abatement: Normally, after an abatement expires, the value of the property at that time it is added to the tax base. Under this provision, the value would remain off of the tax roll.

A designating body could choose to grant a permanent 100% abatement on new qualified property under this provision. The designating body would have to hold a hearing after every ten years to determine if the abatement should be terminated. Ultimately, the impact depends on local action.

State Agencies Affected: Department of Local Government Finance; Department of State Revenue; State Budget Agency.

Local Agencies Affected: Local civil taxing units and school corporations.

Information Sources:

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